

WITHHOLDING TAXES

3698

(No. 67 April 2002)

Purpose/Use:	Withholding and reporting of compensation for fringe benefits / employee business expenses.
Reference/Authority:	IRS codes and regulations Payroll Letter No. 91-12, dated June 24, 1991. CDF Handbook Sections: 1044 , 6770
Forms/Related Documents:	Annual Uniform Replacement Allowance Form, PO-80 Personal Use of State Provided Vehicles, AO-100 Travel Expense Claim, STD. 262 Withholding Report, STD. 676P
Due Dates:	10th of the month.

Recent IRS rulings mandate employers to treat compensating fringe benefits as taxable items. These include uniform and tool allowances; meals for travel with no overnight stay; overtime and arduous meals; aircraft reimbursement; call back mileage; meals and lodging – long term travel and per diem; moving expenses; housing; and personal use of state owned/provided vehicle. These are considered taxable and subject to tax withholdings.

IDENTIFYING/SUBMITTING TAXABLE FRINGE BENEFITS/EMPLOYEE BUSINESS EXPENSE (FB/EBE)

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The Departmental Accounting Office (DAO) will report these taxable FB/EBEs to the State Controller's Office (SCO), which will deduct the appropriate withholding taxes. The reporting of these benefits is based upon the employee completing a TEC or PO 80 and submitting it for reimbursement on any of the FB/EBEs mentioned in this handbook section. This reporting process does not change the amount of reimbursement paid to the employee.

Below is a list of the FB/EBEs that are currently being reported and that IRS considers as taxable. These taxable benefits are subject to federal and state income, Social Security and Medicare taxes.

	Item Description	Item Code	Amount Taxable	PPM Reference
1.	Aircraft Reimbursement	AR	IRS considers as taxable the entire reimbursement.	I 125
2.	Call Back Mileage	CB	IRS considers as taxable the entire reimbursement.	I 129.1

3	Meals and Lodging – Long Term Travel	<i>ML</i>	Fully taxable if employment realistically expected to last more than one year. See instructions.	I 141.1
4.	Moving Expenses- Mileage Reimbursement	<i>MM</i>	IRS considers as taxable the mileage reimbursement over \$0.10 per mile.	I 143.1
5.	Moving Expenses- Relocation Expenses	<i>MR</i>	IRS considers as taxable the only nonqualified relocation expenses. See instructions.	I 143.2
6.	Overtime Meal Compensation	<i>OM</i>	IRS considers as taxable all overtime meal compensation.	I 147
7.	Meals	<i>M</i>	IRS considers as taxable all meals for travel less than 24 hrs and no overnight stay is involved.	I 142.2
8.	Tool Allowance	<i>TA</i>	IRS considers as taxable.	I 150
9.	Uniform Allowance	<i>UA</i>	IRS considers as taxable non-receipted allowances not paid through the PIP System.	I 153

The DAO will report these taxable FB/EBEs to the SCO in accordance with the instructions outlined in the State Payroll Procedures Manual (PPM) Sections by the 10th of each month for any fringe benefit item submitted during the previous month. SCO will withhold Federal and State Income, Social Security and Medicare taxes from the current monthly regular payroll warrant when SCO receives the reporting STD Form 676P by the 10th (cut-off) of the month. Tax withholdings will be in the following pay period if SCO receives STD Form 676P after cut-off.

Tax withholding will be at the current rates appropriate for Federal and State Income, Social Security and Medicare taxes. Tax withholdings will be identified separately on the employee's Earning Statement or Direct Deposit Advice as Fed Tax Adj., St Tax Adj., FICA Adj., or Medicare Adj.

If you have any questions on the reporting and taxability of FB/EBEs submitted for reimbursement via the TEC process, contact the DAO - Travel Unit at (916) 653-7764.

Description of FB/EBEs

1. Aircraft Reimbursement (submitted on TEC to DAO)

The state reimburses employees for business use of an employee-owned aircraft. Currently, the reimbursement rate is \$0.50 per mile. The IRS considers all aircraft reimbursement taxable and reportable income and, therefore, it is subject to the applicable withholding taxes.

2. Call Back Mileage (submitted on TEC to DAO)

This consists of reimbursement for personal mileage expenses incurred by call back for overtime work necessitating more than one trip to the work location on a normal work day or by reason of any call back on an employee's normal day off. The IRS considers the total amount paid for call back mileage as taxable and reportable income, and therefore, it is subject to the applicable withholding taxes.

The claimant should clearly indicate in the "remarks" section on the TEC which mileage expense claims are for call back mileage.

3. Meals and Lodging—Long-Term Travel (submitted on TEC to DAO)

State employees on travel status exceeding 30 days are eligible to receive a daily long-term travel allowance. Under current regulations, taxability of the long-term travel allowance is determined by the length of time the employment is *realistically expected* to last. As defined in Internal Revenue Service Code (IRS) Section 162(a)(2), "temporary employment" is as follows:

- A. If employment away from home in a single location is realistically expected to last (and does last) for one year or less, the employment is temporary in the absence of facts and circumstances indicating otherwise. Given this condition, the allowance is non-taxable.
- B. If employment away from home in a single location is realistically expected to last for more than one year or there is no realistic expectation that the employment will last for one year or less, the employment is indefinite, regardless of whether it actually exceeds one year. Given this condition, the allowance is taxable.
- C. If employment away from home in a single location initially is realistically expected to last for one year or less, but at some later date the employment is realistically expected to exceed one year, that employment will be treated as temporary (non-taxable) in the absence of facts and circumstances indicating otherwise until the date that the realistic expectation changes to exceed one year in total length (taxable).

Taxable long-term travel reimbursements are reported to SCO via Form 676P. These reimbursements are exempt from California State personal income tax withholding. To preclude California State income tax withholding, leave the "State Code," Column 8 on Form 676P, blank.

Form W-2, Wage and Tax Statement issued to employees who receive long-term travel payments, will report long-term travel payments as Federal and SS/Med Wages, but not as State wages. The Franchise Tax Board requires that employees reconcile differences between Federal and State wages via their income tax return.

4. Moving Expenses—Mileage Reimbursement (submitted on TEC to DAO)

Moving expense mileage reimbursements exceeding the Federal Standard Mileage Rate (FSMR) for qualified moves/relocations are considered taxable income by the IRS. Mileage reimbursements less than or equal to the FSMR for qualified moves/relocations are not reportable or taxable.

The current FSMR for qualified moves/relocations is \$0.10 per mile. This rate is subject to change annually. Reimbursed amounts exceeding \$0.10 per mile are considered taxable income and are subject to all applicable withholding taxes.

5. Moving Expenses—Relocation Expenses (submitted on TEC to DAO)

Taxability of reimbursed relocation expenses is determined by the type of expense incurred. There are two categories for determining taxability of relocation expenses: non-qualified and qualified.

A. Non-qualified relocation expenses are always considered reportable and taxable income. These include:

1. All meals connected with the move;
2. Pre-move house hunting trips;
3. Temporary living expenses;
4. Sales or purchase of a residence; and,
5. Leases, unexpired or new.

B. Qualified relocation expenses are considered non-taxable, but reportable income. These include:

1. Reasonable costs of moving the employee's household goods and personal effects from the employee's former residence to the new residence, and
2. The reasonable costs of travel and lodging expenses incurred from the old location to the new one.

To be considered non-taxable the reimbursement must meet the following requirements:

1. Time Test - The employee's full-time employment status must be for 39 weeks during the 12 months immediately following the move. The time test can be waived due to death, disability or involuntary separation (other than willful misconduct) or if the employee is transferred for the employer's benefit.
2. Distance Test - The distance test is met if the employee's move to a new headquarters is at least 50 miles farther from the employee's former residence than the employee's former residence was from the old headquarters.

Example: The employee's normal commute from the old headquarters to the former residence was 15 miles. The employee's normal commute from the new headquarters to the employee's old residence must be a minimum of 65 miles to satisfy the distance test.

3. Accountable Plan - The employer's relocation reimbursement plan meets the requirements of an Accountable Plan under IRS rules and regulations. All of the State of California's relocation reimbursement plans meet these provisions.

Qualified relocation expenses, while not considered taxable, are still reportable to the SCO.

6. Overtime Meal (OMC) and Arduous Meal Compensation (submitted on TEC to Unit Personnel)

For more information, refer to 1000 Personnel Procedures Handbook Section [1044](#).

- A. Overtime Meal - A meal receipt may be required to support a claim for OMC, depending on the MOU for the bargaining unit. The amount of the reimbursement is governed by the employee's MOU.
- B. Arduous Meal - Excluded and non - represented employees in Work Week Group 4C do not receive overtime meals but may be eligible for "arduous meals" for each day of declared arduous duty, provided qualifying criteria have been met as outlined in departmental procedures. Meal receipts are not required for arduous meals. Employees who qualify for an arduous meal may claim \$8.00.

Overtime meal and arduous meal compensation will be processed through the SCO's Payroll System. The claimant will be paid for the meals on a Controller-issued warrant. All appropriate taxes will automatically be deducted. All meal claims will need to be submitted on a separate TEC in order to audit and be processed for payment.

7. Meals – per diem (submitted on TEC to DAO)

Meals are taxable for travel that is less than 24 hrs and no overnight stay is involved.

8. Tool Allowance (submitted on PO 80 to Unit Personnel)

After certification from Unit Personnel, submit to DAO for processing. The payment, taxable and withholdings will be done by DAO. To comply with the reporting requirements DAO must:

- A. Report to the SCO Payroll Operations Unit, W-2 Unit, all tool allowances issued/paid to authorized California Department of Forestry and Fire Protection (CDF) employees.
- B. Obtain the reporting information from the source documents (Monthly Claims Verification Listing, Annual Uniform Replacement Allowance Form PO 80 and indicate "Tool Allowance"), which support the Claim Schedule (STD. 218).
- C. Report taxable tool allowances on a monthly basis to SCO via STD 676 P.
- D. Report to SCO the first payroll period following payment to the employee.
- E. SCO will withhold appropriate taxes from the current monthly regular payroll warrant

9. Uniform Allowance

As outlined on Payroll Letter No. 91-12, dated June 24, 1991, all Uniform Allowances issued/paid July 1, 1991, and thereafter are taxable, subject to appropriate withholdings.

If the Uniform Allowance is paid by the SCO, the taxable and withholdings will be done by SCO.

If the Uniform Allowance is paid by DAO, the taxable and withholdings will be done by DAO. To comply with the reporting requirements of Payroll Letter No. 91-12, DAO - Accounts Payable (Claims) Unit must:

1. Report to the SCO Payroll Operations Unit, W-2 Unit, all uniform allowances issued/paid to authorized California Department of Forestry and Fire Protection (CDF) employees July 1, 1991 and thereafter.
2. Obtain the reporting information from the source documents (Monthly Claims Verification Listing, Annual Uniform Replacement Allowance Form PO 80), which support the Claim Schedule (STD. 218).
3. Report taxable uniform allowances on a monthly basis to SCO via STD. 676 P.
4. Report to SCO the first payroll period following payment to the employee.
5. SCO will withhold appropriate taxes from the current monthly regular payroll warrant when SCO receives the STD. 676 P by the 10th (cut-off) of the month. Tax withholding will be in the following pay period if SCO receives the STD. 676 P after cut-off.
6. Withholding amounts will be in accordance with the rate table shown in section 3698.1.1.

TAX WITHHOLDING TABLE

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Appropriate tax withholding will be at the rates shown on the following table:

Tax Category	Rate
Federal Income Tax	20.00%
State Income Tax	3.00%
Social Security (if applicable)	6.20%
Medicare Tax (if applicable)	1.45%
	<hr/>
	30.65%

Tax withholdings will be identified separately on the employee's Earning Statement or Direct Deposit Advice as Fed Tax Adj., FICA Adj., or Medicare Adj.

REPORTING THE TAXABLE VALUE OF STATE – PROVIDED HOUSING

3698.2

(No. 67 April 2002)

The California Department of Forestry and Fire Protection (CDF) must be in compliance with Internal Revenue Service (IRS) Code and establish procedures to report the taxable value of state-provided housing to the State Controller's Office (SCO).

The IRS Code Section 61 states: "Gross income means all income from whatever source derived including. . .fringe benefits." IRS Regulation Section 1.61-21(b) requires the Fair Market Value (FMV), less any amount paid by the recipient, to be included in each employee's gross income.

The IRS Regulation Section 1.61-21(b) defines FMV: "FMV of a fringe benefit is the amount that an individual would have to pay for the particular fringe benefit in an arm's-length transaction. . ." FMV equals the amount for which the property would rent in an open market between a willing lessor and lessee.

Determination of FMV shall be made by a licensed appraiser or qualified real estate service on an annualized basis. The responsibility for maintaining rental units at current FMV rests with the respective units. Rental rates must be adjusted to current FMV, unless otherwise restricted by memorandums of understanding (MOUs) from applicable bargaining units. Past practice has dictated that any state employee renting CDF-owned housing will be governed by the terms and conditions of BU 08 as it pertains to state-owned housing rentals, unless otherwise specified in respective MOUs. When rental rates are at FMV, no reportable fringe benefit accrues to the employee and no reportable income will be necessary.

The IRS Codes and Regulations state the value of employer-provided housing may be excluded from taxation as a fringe benefit if all three of the following conditions are met:

1. On the business premises of the employer;
2. For the convenience of the employer; and
3. As a condition of employment.

A determination has been made that **no** CDF housing rentals or trailer spaces meet these criteria for exempt status. Bargaining Unit 08 Memorandum of Understanding (MOU) specifically prohibits housing as a condition of employment. Consequently, all CDF housing rentals and trailer space rentals are subject to taxable fringe benefits if rents are below FMV.

Example: CDF rents an employee a house for \$225/month. The current FMV for the house is \$400/month. The FMV (\$400), less amount paid by the employee (\$225), equals the taxable and reportable fringe benefit amount (\$175).

Effective January 1, 1998, the Departmental Accounting Office (DAO) will use DAO records to determine the difference between FMV and the rent paid by the employee as a taxable fringe benefit. The DAO will report this value to the State Controller's Office (SCO) via Form 676V, Non-USPS Adjustment Request -- Values (Fringe Benefit/Employee Business Expense), sample attached, with the description "Value of State Housing," and the code "HV." SCO will withhold the appropriate (federal and state income, Social Security and Medicare) taxes based on the reported value. Tax withholdings will be withheld from a subsequent, regular payroll warrant and be identified separately on the employee's Earnings Statement or Direct Deposit Advice as Fed Tax Adj., St Tax Adj., FICA Adj., or Medicare Adj.

The DAO will report taxable values of state housing to the SCO using Form 676V on the payroll period following receipt of the benefit. Housing values reported and received by the SCO by the 10th (cut-off) of the month will result in tax withholding from the current month, regular payroll warrant. If SCO receives the documents after cut-off, tax withholding will be reflected in the following month, regular payroll warrant.

To date, the DAO has not reported any State Housing Rental Fringe Benefits to SCO. The DAO will be reporting housing values as of January 1, 1998 upon approval of this policy. The reporting will be done on a monthly basis using the DAO records. If Units provide inaccurate or late rental information to DAO, however, the taxable reporting may have detrimental consequences in the form of large withholding amounts from regular payroll warrants and/or Forms W2-C for late reporting at the close of the tax year.

If you have any questions regarding this information, contact DAO - Accounts Receivable Unit at (916) 653-2829.

PERSONAL USE OF STATE-OWNED/PROVIDED VEHICLE: REPORTABLE AND TAXABLE

3698.3

(No. 67 April 2002)

General Information

The IRS considers the value of personal use of a State-owned or State-provided vehicle to be reportable and taxable noncash income unless conditions for the use of the vehicle are such that they are specifically excluded in the Internal Revenue Codes/Regulations (refer to Reporting Exceptions on the following page.) The value of personal use of state vehicles is subject to federal and state income, Social Security (when applicable) and Medicare taxes.

Personal use of a state vehicle includes, but is not limited to, using an assigned State vehicle to commute to and from work. As the employer, CDF is allowing the employee to select from the four- (4) methods described below. Once an alternative is selected, the employee must continue to use that method for the balance of the personal use. This value becomes taxable as noncash income and should be submitted monthly to DAO. The DAO will compile and submit these values to the State Controllers Office (SCO) via Form STD 676V, on a monthly basis, by the 10th of the month. These taxes will be withheld from a subsequent, regular payroll warrant. Tax withholdings will be identified separately on the employee's Earnings Statement or Direct Deposit Advice as Fed Tax Adj, St Tax Adj, FICA Adj, or Medicare Adj.

Reporting Methods

The IRS allows four alternatives to attach value for personal use of state vehicles. Form AO-100 describes each alternative and provides directions to the employee on how to calculate the value under each method. The four acceptable methods are:

1. Vehicle Cents-Per-Mile Method

Under this method, the Federal Standard Mileage Rate (FSMR) is multiplied by the number of miles the vehicle is used for personal purposes. The result equals the reportable/taxable value. Value may be reduced at \$0.055 per mile if the employee provides the fuel. The FSMR for 2002 is established at \$0.365 per mile.

This method can only be used if the vehicle in question is driven a minimum of 10,000 miles per year and is valued at or below a Fair Market Value of the annually established level for this rule. For 2001, the FMV is established at \$15,400.

The FSMR and FMV are adjusted annually by the IRS. The State Controllers Office issues a payroll letter each January announcing the current year Federal requirements for the FSMR and FMV.

2. Commuting Valuation Method

Under this method, the reportable and taxable value is \$1.50 per one-way commute or \$3.00 per round trip commute.

This method cannot be used if the employee is a Control Employee. A Control Employee of a government employer is any elected official, or an employee whose compensation equals or exceeds \$117,600. The IRS establishes annually the compensation level requirement for a Control Employee. The State Controllers Office announces this compensation level in a payroll letter each January.

NOTE: If an employee selects this alternative method of reporting the benefit, the employee is responsible for providing DAO with the number of days during the month for which the vehicle was used to commute to and/or from work. DAO will assign \$1.50 or \$3.00 per day to reflect the value and report this value to SCO via a STD. 676-P. This process must be repeated each month by the employee in order to meet the monthly reporting requirements.

3. Auto/Lease Valuation Method

Under this method, the value of the benefit is the annual lease value of the automobile. Tables for determining the annual lease value are in IRS Publication #535, Business Expense. Annual lease values are adjusted by an employee's percentage of personal use and do not include the value of employer-provided gasoline used for personal purposes. The employee must report an additional amount of \$0.055 per mile for each personal use mile if the gas is purchased by the State.

4. General Valuation Method

Under this method, the reportable and taxable value is the amount an unrelated third party would charge a person to lease the same or comparable vehicle on the same or comparable terms. This option typically results in a higher reportable/taxable value. Refer to IRS Publications #535, Business Expenses, and #917, Business Use of a Car, for valuation details.

Reporting Exceptions

The IRS provides two exceptions to reporting requirements for personal use of a state vehicle (IRS Regulation Section 1.274-5T[k]).

1. If an employee commutes in a state-owned or leased vehicle no more than once a month, its value is exempt from gross income, per IRS Regulation 1.132-6(e)(2). Given this condition, there is no reporting requirement.

2. If an employee uses a “qualified non-personal use vehicle” there is no reporting requirement as long as **BOTH** of the following conditions are met.
 - A. The use is by a police officer or fire fighter who, when not on a regular shift, is on call at all times, provided that any personal use (other than commuting) of the vehicle outside the limit of the police officer’s arrest powers or the fire fighter’s obligation to respond to an emergency is prohibited by the governmental agency.
 1. Refer to CDF Mobile Equipment Handbook, [Section 6770, Misuse of State Vehicles](#), for a further explanation of CDF’s guidelines for prohibited personal uses of state vehicles.
 2. For purposes of reporting personal use of state vehicles, on call at all times refers to work week group provisions such as immediate response status (IRS), emergency response assignment (ERA), and specially directed constant on call availability of work week group 4C employees.
 - B. The vehicle must be clearly marked as an emergency vehicle; that is, the vehicle is not likely to be used more than minimally for personal purposes because of the way it is designed. A police or fire vehicle is clearly marked if, through department insignia, striping, words, emergency lights, and/or exterior color, it is readily apparent that the vehicle is a police or fire vehicle. A marking on a license plate is not sufficient to qualify as a clearly marked fire vehicle.

Based upon the emergency response nature and support role of our mission, the department’s believes that CDF Employees who are assigned clearly marked emergency vehicles are exempt from the reporting requirement.

Employees who are assigned vehicles and who do not frequently support emergency operations or do not otherwise meet the exemption criteria are subject to the taxable reporting for personal use of the vehicle.

It is the employee’s supervisor and/or program manager’s responsibility to understand the provisions and exemptions criteria of personal use of state-owned provided vehicle to determine the employee’s designation when assigned a department vehicle to commute to and from work in conjunction with their work duties, responsibilities, and department requirements.

Implementation of Reporting Requirements

All affected employees will report on a monthly basis any non-exempt personal use of a state provided vehicle. Employees will follow the guidelines as outlined in these procedures and submit a completed AO-100 to DAO by the 5th of each month. DAO will report the taxable values of personal uses of state provided vehicles to the SCO by the 10th of each month.

Questions regarding the information contained in this handbook section should be directed to either the Fire Protection Headquarters at (916) 653-7370 or the DAO at (916) 654-5713.

[\(see next section\)](#)

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[\(see Forms or Forms Samples\)](#)